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Presentation to the 2009 Joint Legislative Economic Outlook and Revenue Assessment Committee

prepared by

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- The Real Estate and Construction Industries remain one of the largest sectors of the Idaho economy, generating tens of millions of dollars in tax revenue for the state through both sales and income taxes.
- Active construction and real estate markets at the local level generate millions for local governments in new property tax revenues.

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IDAHO GROSS STATE PRODUCT BY INDUSTRY

(millions of calendar year current dollars)

NAICS Code	Industry Sector*	CY 1997 $ Amt	CY 1997 % of Total	CY 2007 $ Amt	CY 2007 % of Total	1997-2007 $ Change	1997-2007 10 year Percent Change	1997-2007 Annualized Percent Change	1997-2007 % of Total Change
155	Real Estate, Rental, and Leasing	3,130	11.0%	6,375	12.5%	3,245	103.7%	7.4%	1.48%
163	Administrative and Waste Services	558	2.0%	1,634	3.2%	1,076	192.8%	11.3%	1.24%
158	Professional and Technical Services	1,800	6.3%	3,855	7.5%	2,055	114.2%	7.9%	1.22%
167	Health Care and Social Assistance	1,699	6.0%	3,644	7.1%	1,945	114.5%	7.9%	1.16%
150	Finance and Insurance	1,092	3.8%	2,423	4.7%	1,331	121.9%	8.3%	0.91%
145	Information	524	1.8%	1,268	2.5%	744	142.0%	9.2%	0.64%
166	Educational Services	124	0.4%	324	0.6%	200	161.3%	10.1%	0.20%
106	Mining	165	0.6%	365	0.7%	200	121.2%	8.3%	0.13%
174	Accommodation and Food Services	747	2.6%	1,359	2.7%	612	81.9%	6.2%	0.04%
135	Retail Trade	2,437	8.5%	4,354	8.5%	1,917	78.7%	6.0%	-0.04%
171	Arts, Entertainment and Recreation	258	0.9%	421	0.8%	163	63.2%	5.0%	-0.08%
110	Utilities	583	2.0%	982	1.9%	399	68.4%	5.4%	-0.13%
136	Transportation & Warehousing	931	3.3%	1,529	3.0%	598	64.2%	5.1%	-0.28%
177	Other Services	660	2.3%	1,027	2.0%	367	55.6%	4.5%	-0.31%
134	Wholesale Trade	1,694	5.9%	2,809	5.5%	1,115	65.8%	5.2%	-0.45%
162	Management of Companies	609	2.1%	852	1.7%	243	39.9%	3.4%	-0.47%
103	Agriculture, Forestry, Fish and Hunting	1,752	6.1%	2,828	5.5%	1,076	61.4%	4.9%	-0.62%
178	State, Fed & Local Government	4,094	14.4%	6,919	13.5%	2,825	69.0%	5.4%	-0.83%
111	Construction	1,911	6.7%	2,927	5.7%	1,016	53.2%	4.4%	-0.98%
112	Manufacturing	3,739	13.1%	5,254	10.3%	1,515	40.5%	3.5%	-2.84%
	Total Gross State Product	28,507	100%	51,149	100%	22,642	79.4%	6.0%	0.00%

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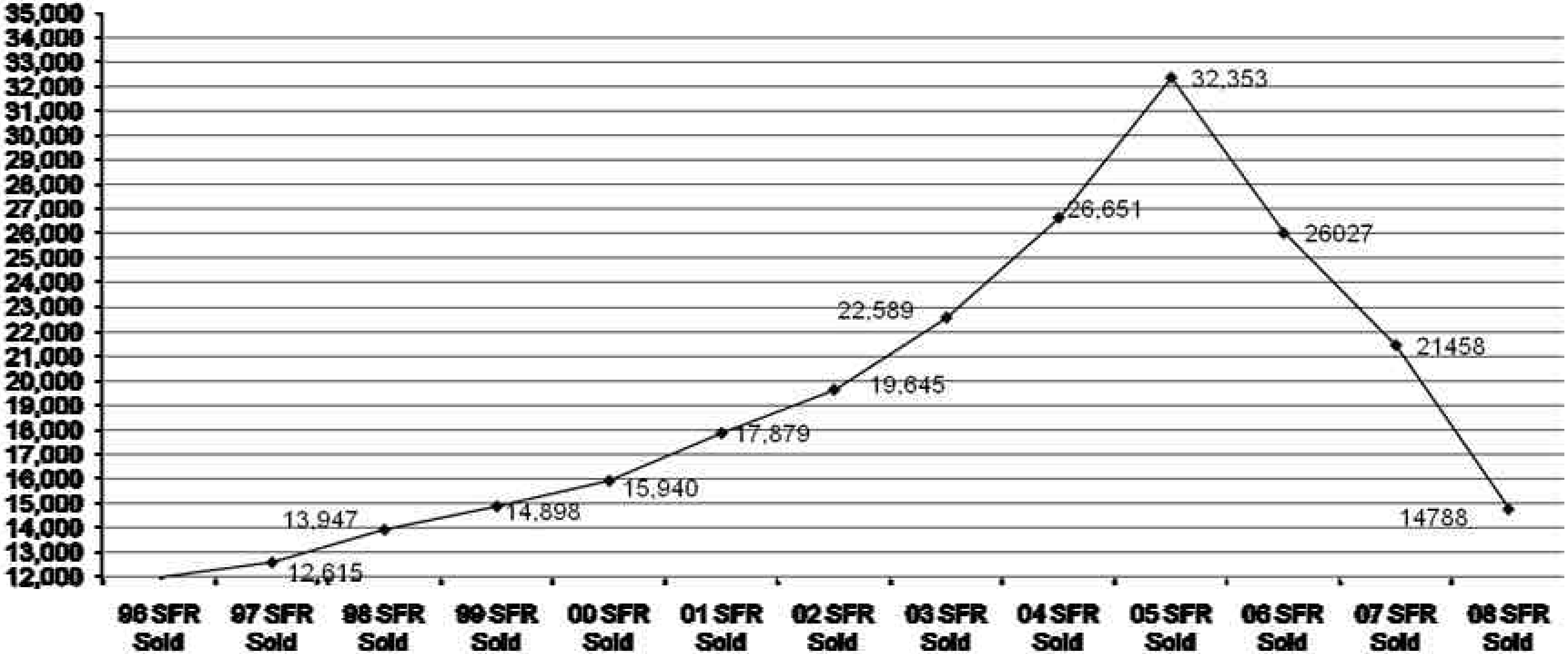
Tracked Single Family Residential Units Sold Statewide



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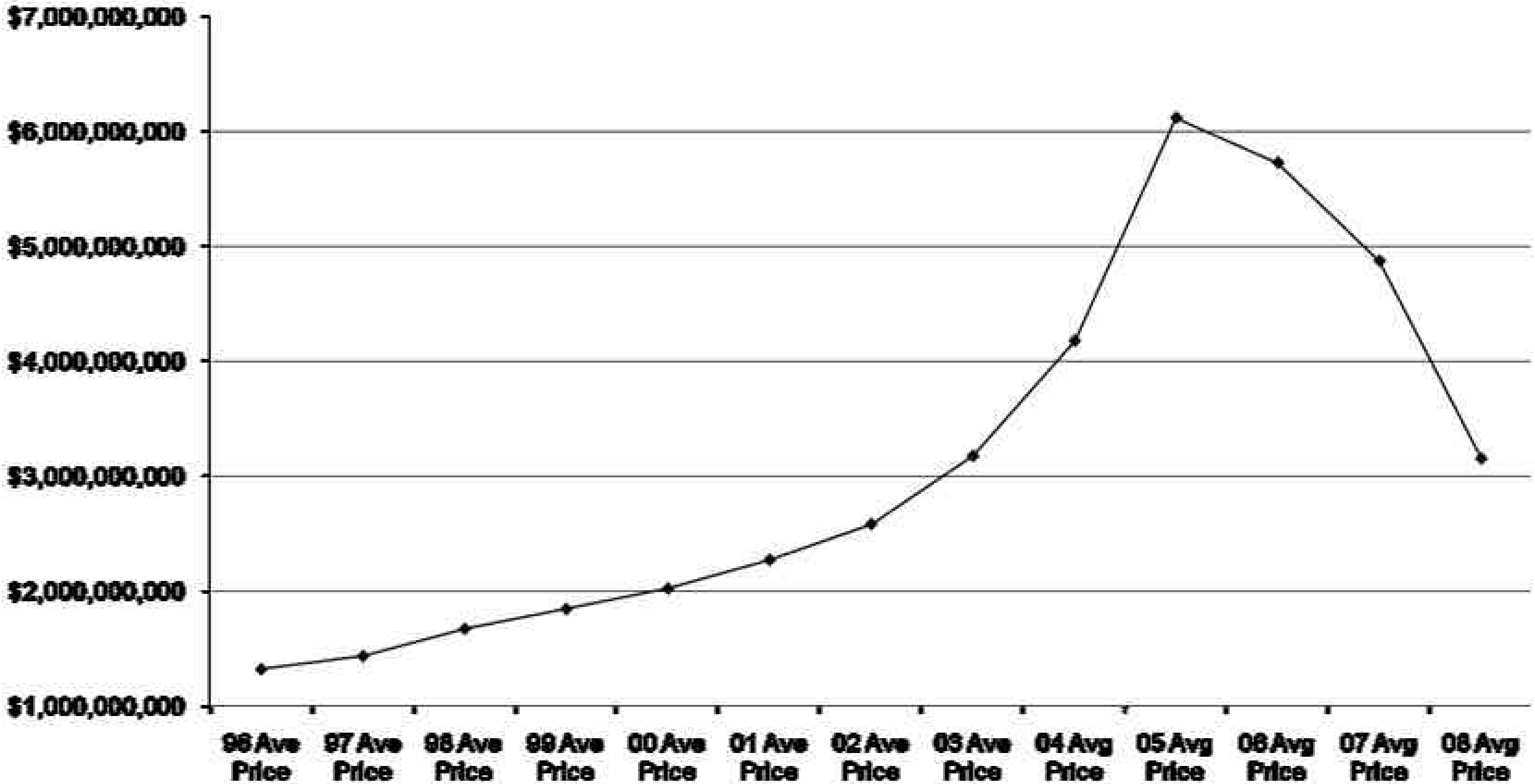
Total Dollar Volume



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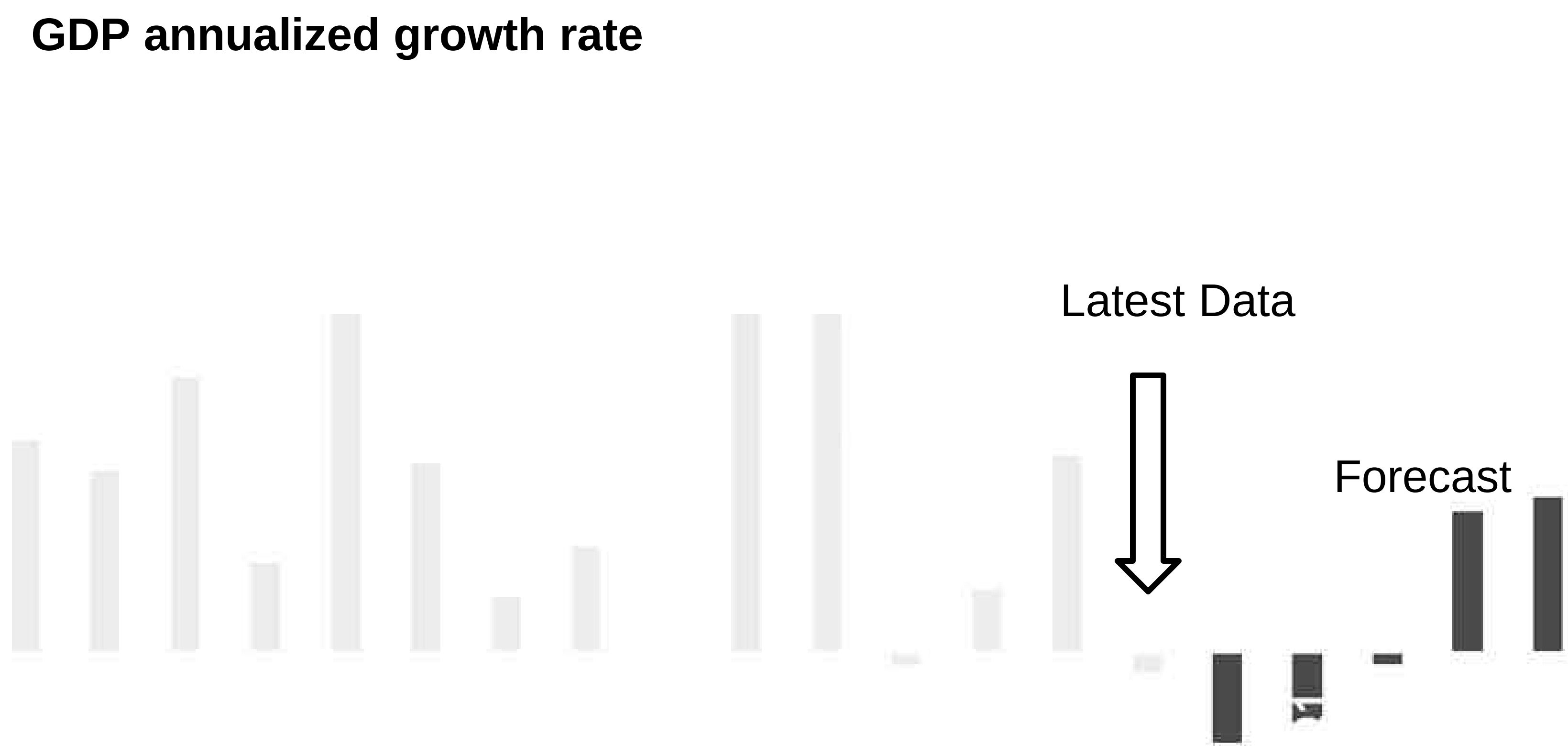
CHANGING IDAHO MARKET

- Pullback in investor buying in 2006.
- Once up to 25 percent of the market.
- Excess of stock in major markets.
- Non-conventional loans create abundance of “distressed properties”.
- National economy hits Idaho, sales decline further than predicted.

Economy Contracts



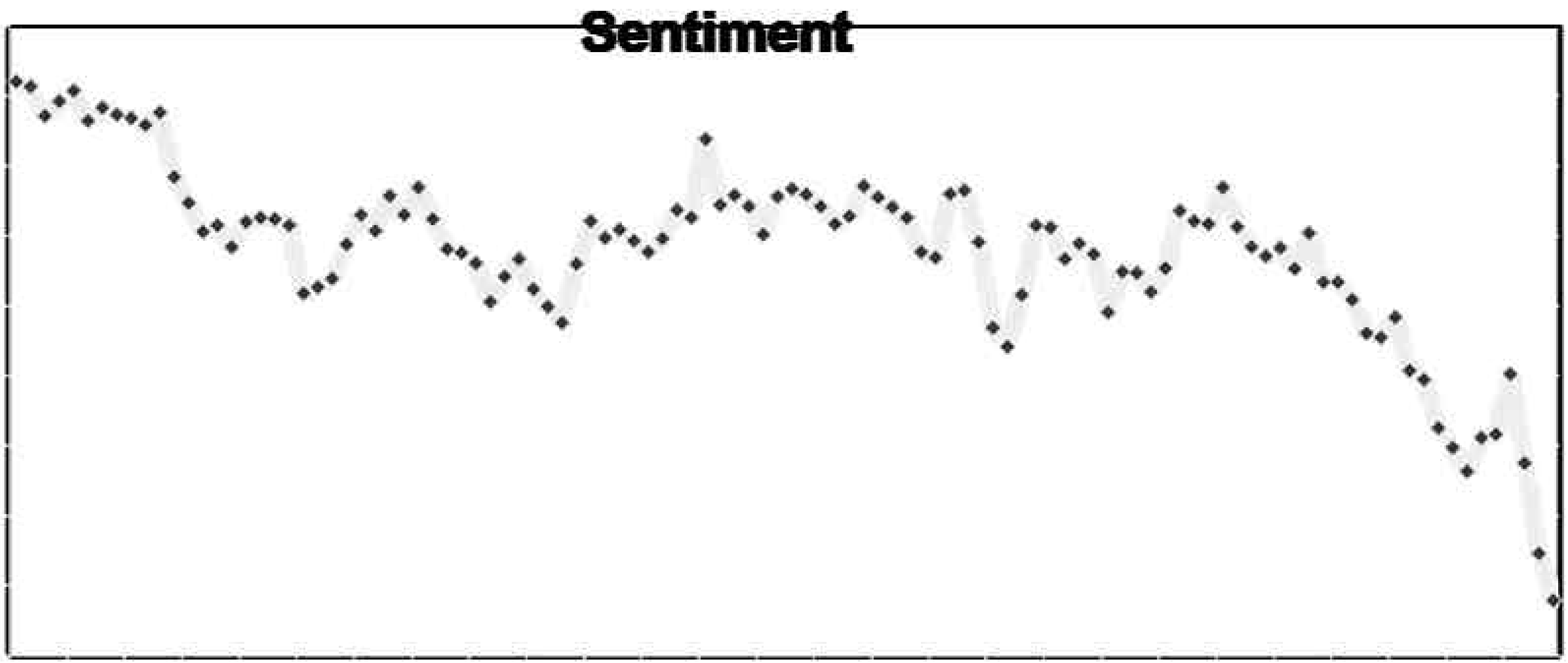
Source: BEA

Consumers Tapped Out

Personal Consumption annualized growth rate

Source: BEA

Consumer Confidence



Source: University of Michigan

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"The further erosion of the Consumer Confidence Index reflects the rapid and steep deterioration of economic conditions that occurred in the fourth quarter of 2008. The overall economic outlook remains quite dismal for the first half of 2009, and only modest recovery is expected in the second half."

- Lynn Franco, Director of the Conference Board Consumer Research Center

Stock Market Wealth

($8 trillion loss from peak)

SP 500 Index

Source: WSJ

Housing Valuation

($2 trillion loss in wealth from peak)

$ billion

Source: Federal Reserve, NAR estimate

Job Changes in U.S.

One-month payroll job changes in thousands

Source: BLS

Unemployment Rate

Source: BLS

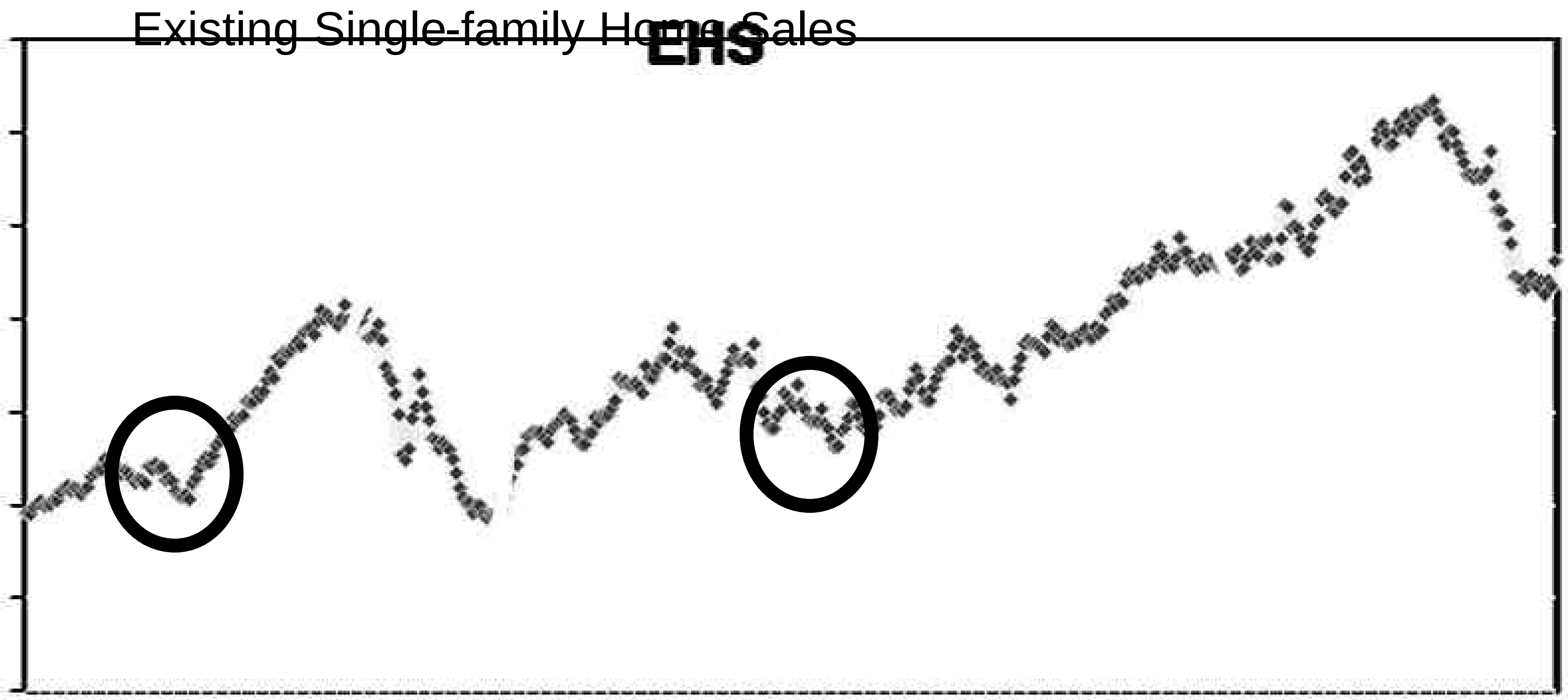
Economic Outlook

	2007	2008	2009
GDP	2.0%	1.5%	-0.3%
CPI Inflation	2.9%	4.1%	2.0%
Unemployment Rate	4.6%	5.7%	6.7%

Recession Impact on Housing Market

- Mid-1970s Recession
  - Little Change in Home Sales
- Early 1980s Recession
  - Deep Cuts in Home Sales
- Early 1990s Recession
  - Moderate Cuts in Home Sales
- Early 2000s Recession
  - Rise in Home Sales

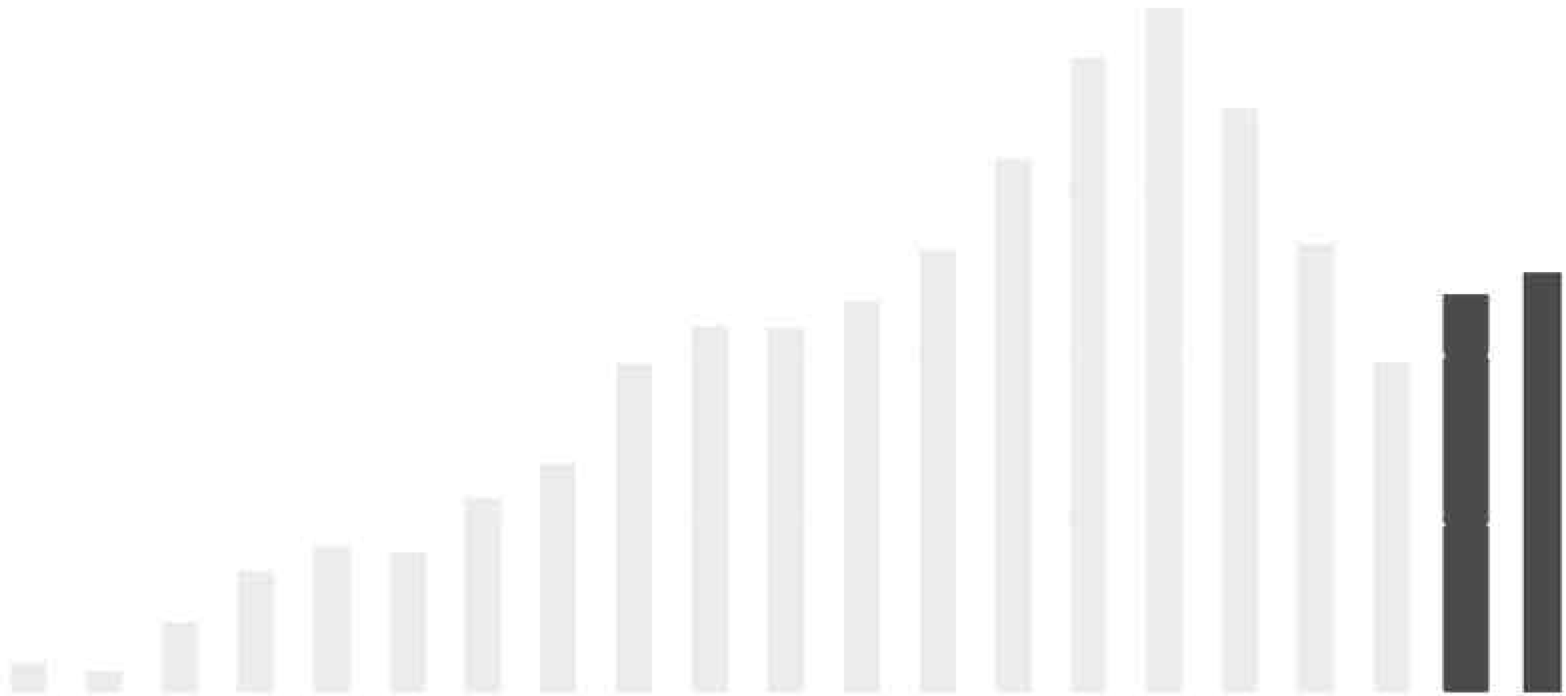
Recession Impact on Home Sales



Source: NAR

National Existing-Home Sales at 1998 levels…but with 25 million more people

In thousand units



Inventory Still High

Months Supply of new and existing homes

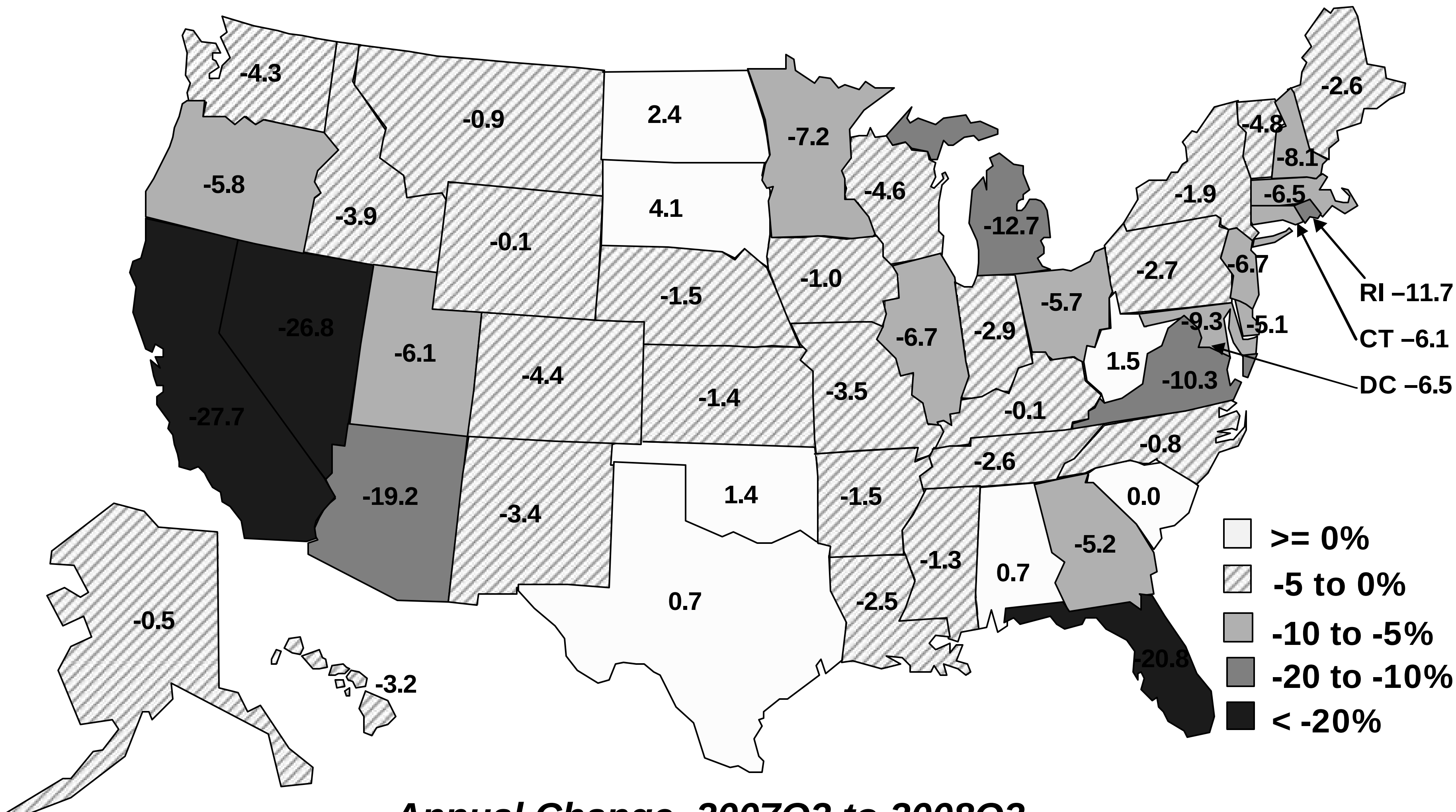
Source: NAR, Census

Foreclosure Starts: Prime vs. Subprime

% of all mortgages each quarter

Source: Mortgage Bankers Association

House Price Declines



Annual Change, 2007Q3 to 2008Q3

Source: Freddie Mac

Inventory of New Vacant Homes Falling

Source: Census

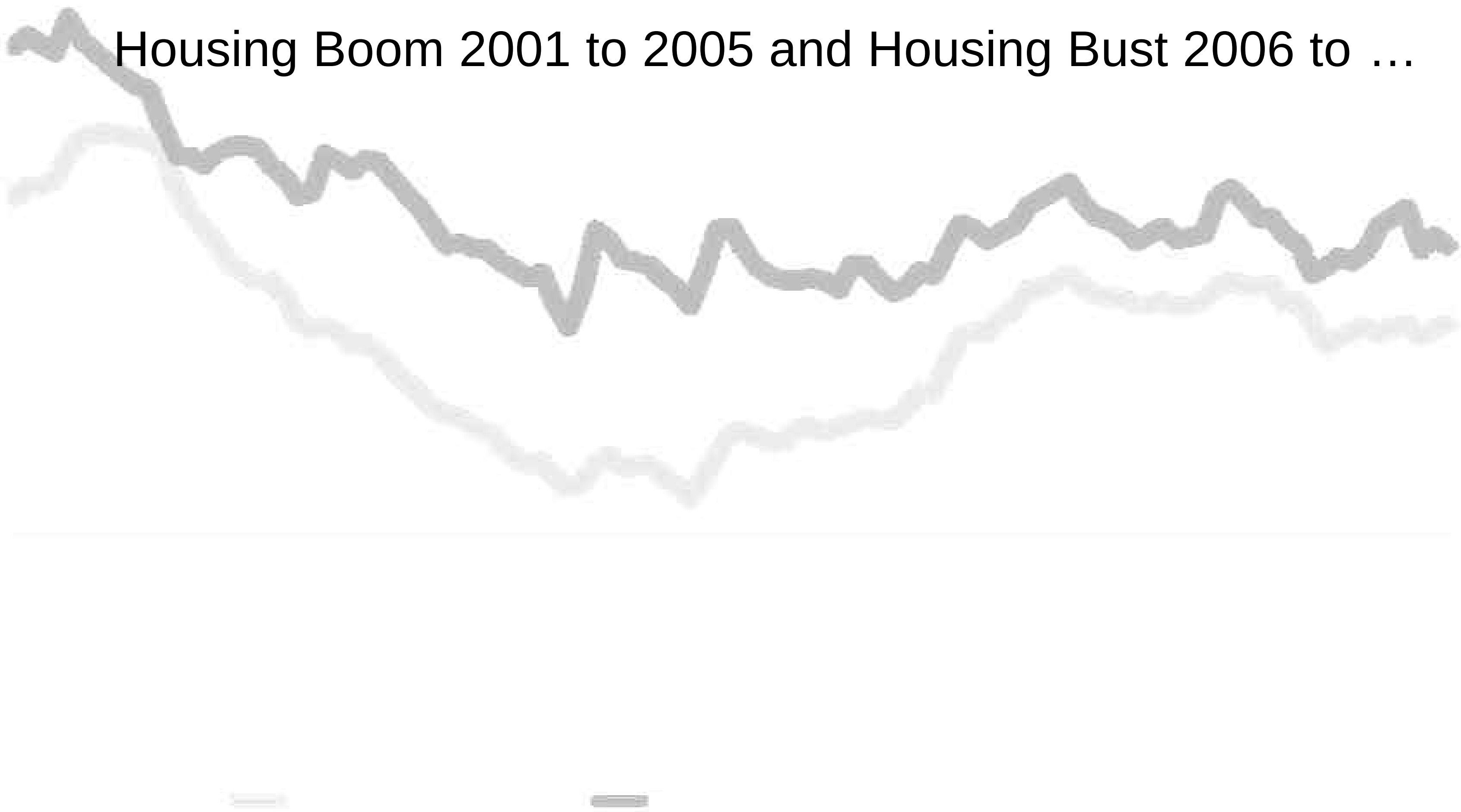
Housing Affordability Index

(Higher numbers mean more people can afford to buy a home)

Source: NAR

Mortgage Rates

Housing Boom 2001 to 2005 and Housing Bust 2006 to …



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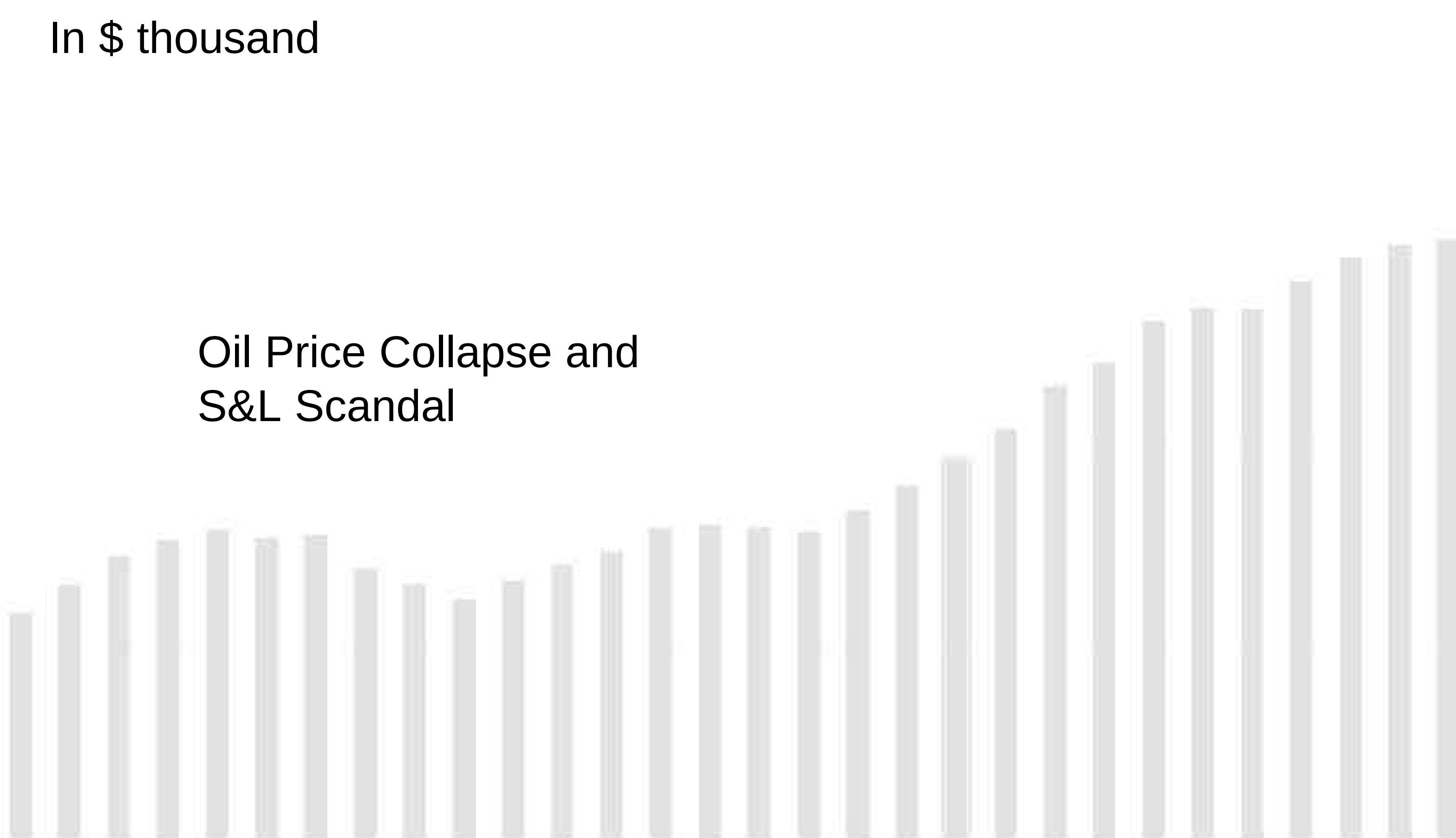
CHALLENGES

- 40-45 percent of the national market are "distressed properties".
- 80 percent of purchases are for primary homes.
- 12 million upside down.

Rebound Happens: Dow Jones

1987 Crash

Rebound Happens: Houston Home Price



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U.S. HOMES ON SALE

- Never been a better time to buy.
- Economic recovery will require responsibility on behalf of lending institutes and government officials.

Federal Budget Deficit

$ million

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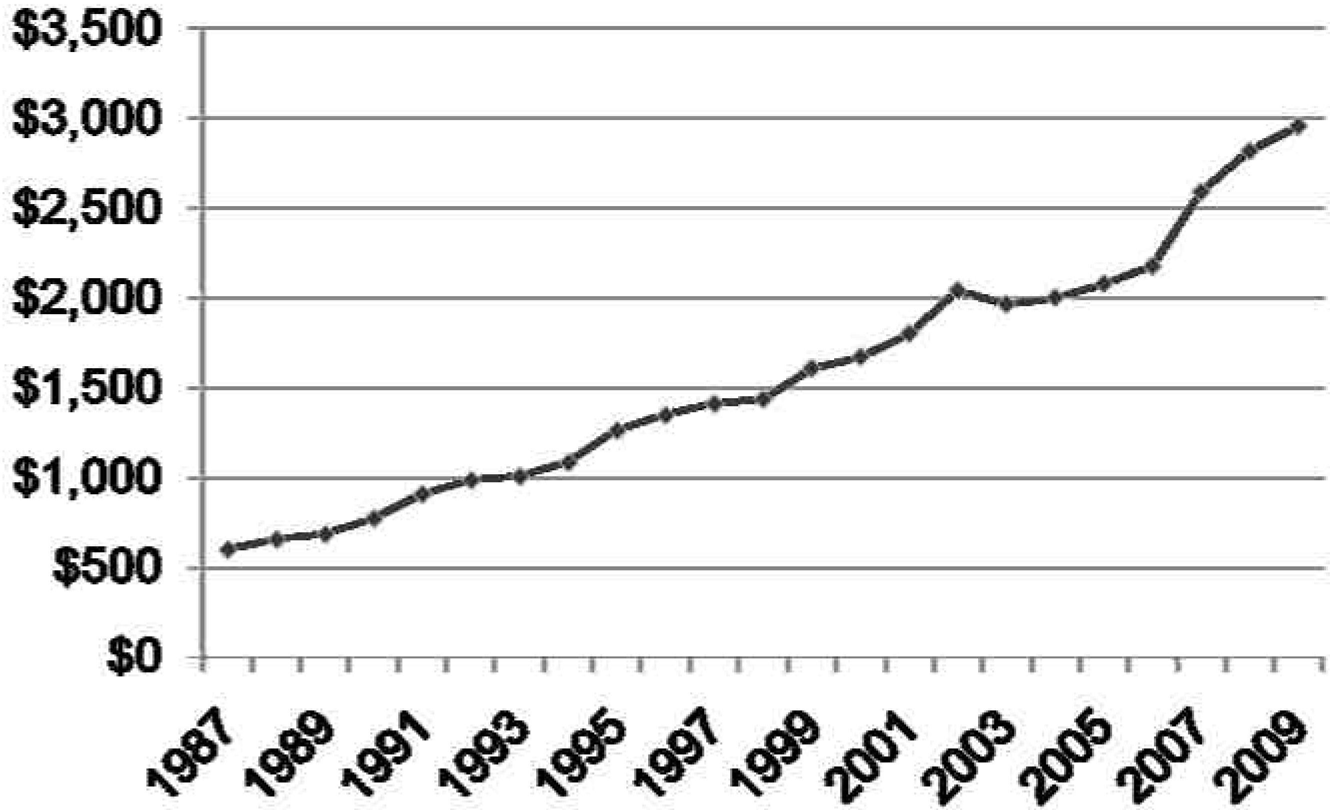
1987-2009 Idaho State General Fund Growth

$ in Millions



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Question 1: What is the current state of Idaho's real estate and construction industries? How does this compare to past levels?

- The industry is in transition.
- Had expected a flat market in 2008, but that was not the case.
- Sales numbers slide, but are regionalized.
- Current market likely to persist in the near future.
- National economy effects Idaho market.

CANYON COUNTY MARKET

- Sales down 33 percent from last year.
- At 1999 levels.
- Primarily due to the last two quarters.

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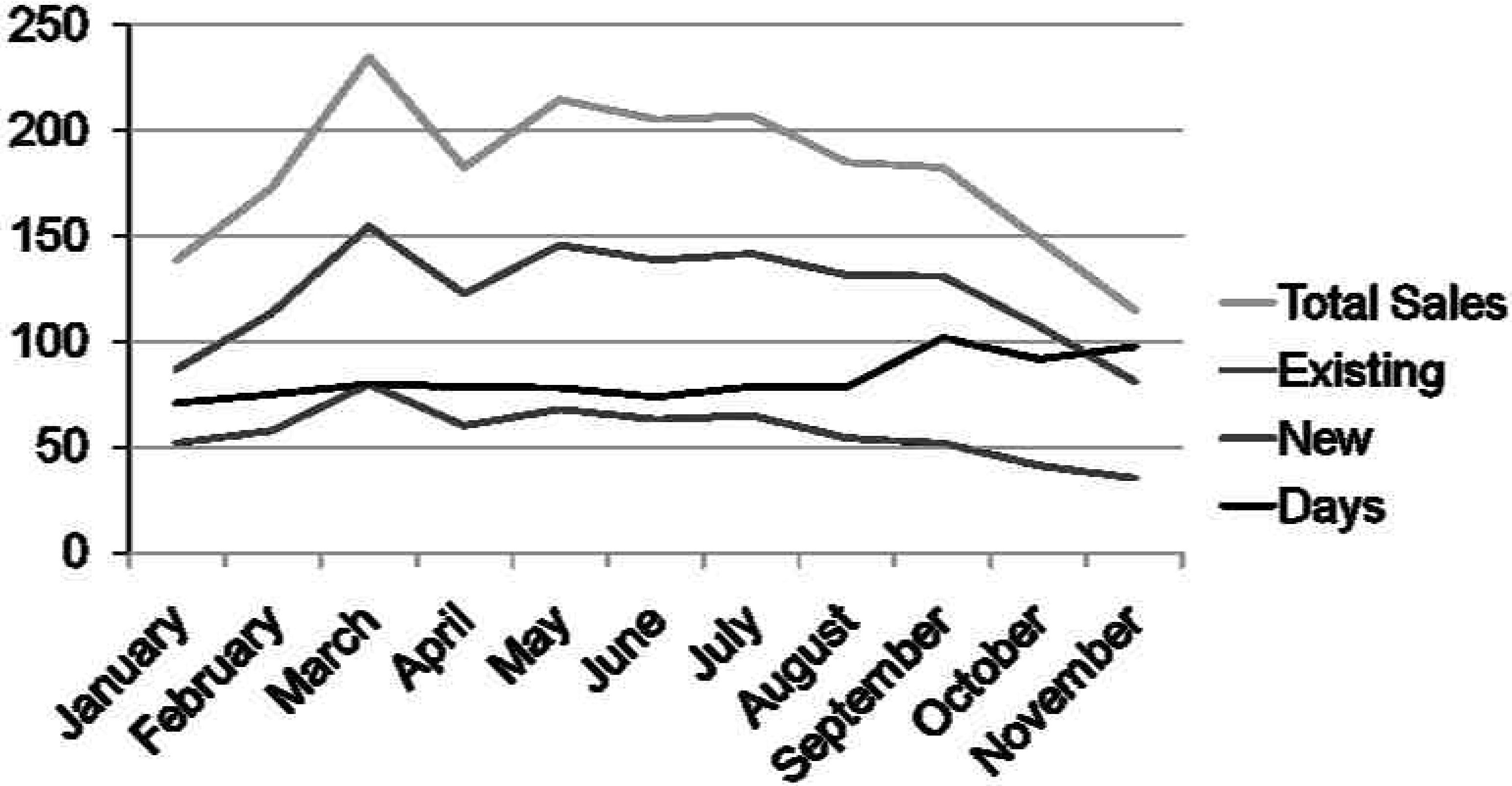
2008 Canyon County Sales



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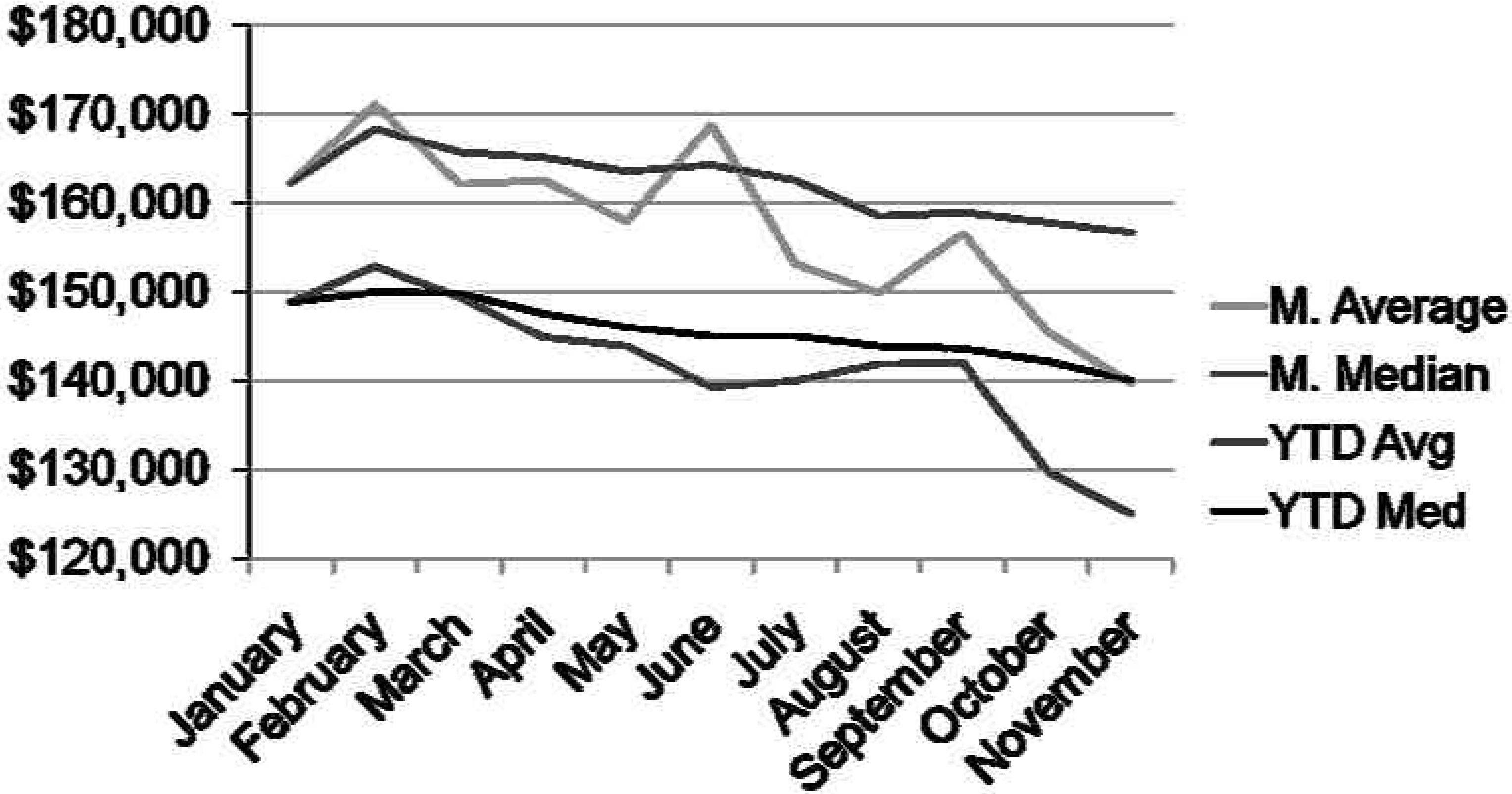
2008 Canyon County Sales



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Question 2: How many are employed in these industries? What is the total payroll?

- There are nearly 7,500 active real estate licensees in the REALTOR® organization in Idaho.
- Down from a high of 9400 in mid 2007.
- Lost nearly 1000 members in the final quarter.
- 12.5 percent of Idaho's Gross State Product.

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MOST SELLERS USE A REAL ESTATE AGENT

Method Used to Sell Home
*(percentage distribution)**

Through real estate agent or broker	84 %
Through agent/broker only	81
Seller tried to sell him/herself, then used agent	3
For sale by owner (FSBO)	13
Seller sold home without using agent or broker	11
Seller first listed property with agent, then sold home him/herself	2
Sold home to a home buying company	1
Other	2

Source: The 2008 NAR Profile of Home Buyers and Sellers
** detail may not add due to rounding*

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Question 3: How are these industries likely to perform over the next 18 months?

- Difficult to predict that far out.
- Many of the fundamentals have changed.
- Interest rates have remained stable.
- Migratory patterns are changing as people lose mobility.
- Secondary home sales are a smaller percentage of the market.
- Still a good place to live and work, but we need your help with economic development and sound tax policy.

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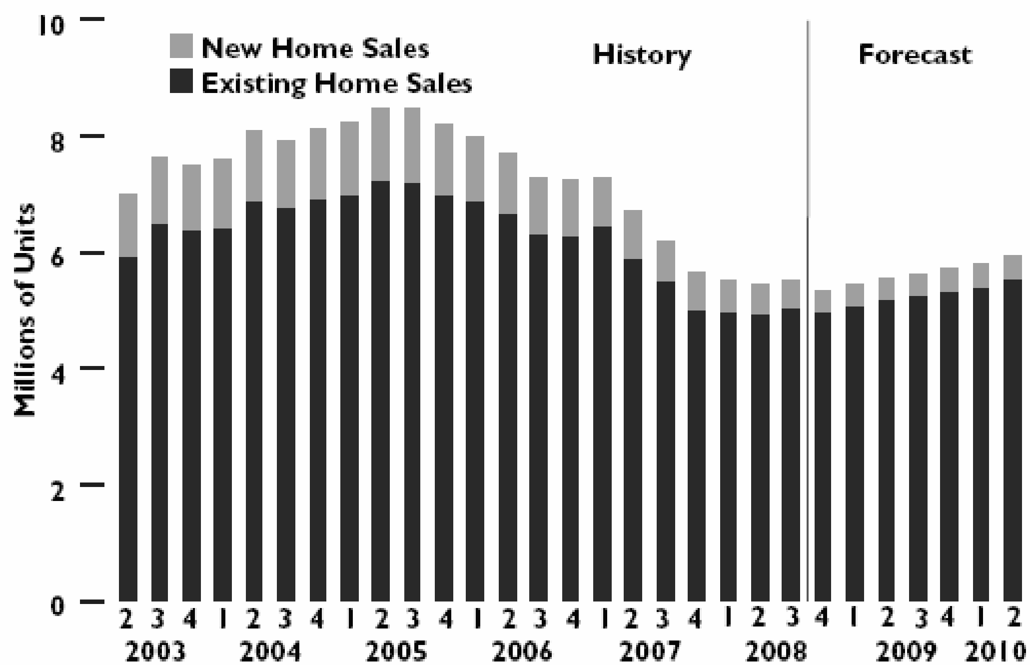
Home Sales

Finally hitting bottom, then rising



Sources: NAR, Bureau of the Census, NAR Forecast

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Question 4: How have low interest rates stimulated the construction and real estate industries?

- Low interest rates have helped the industry weather the downturn very well.
- Rates have remained below 7 percent longer than predicted.
- Subprime loans with low adjustable rates contributed to the problem.
- Current rates are near all time lows, and are expected to climb slightly over the next two year.

Question 5: What impact does the real estate industry have on General Fund revenues?

- Real Estate was 12.5 percent of the Idaho GSP in 2007.
- Construction represents 5.7 percent.
- Taken together at 18 percent it is the largest sector of Idaho's economy – bigger than agriculture, manufacturing, health care, and government.
- Directly responsible for most of the surplus revenue for the past few years.

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Question 6: Where does Idaho rank relative to other states regarding housing affordability?

- NAR Housing Affordability index at 142 in November – up from 118 this time last year.
- Typical family has 142 percent of the median income needed to purchase the median priced home.
- We have not seen this level since the early 70’s.
- NAHB calculates the Housing Opportunity Index
- Ranks the percentage of median income households that can afford the median price home.

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Question 7: What policies should Idaho follow to promote economic growth and higher wages?

- Changes in policy effect our markets.
- Anti-growth policies do not work and will have a negative effect on our economy.
- IAR Supports responsible development that is good for the state and the consumer.
- Government needs to work with the markets, and not against them in order to succeed.

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THE ROLE OF THE LEGISLATURE

- Actions of the Legislature have a significant impact on our industry.
- Continued reduction in capital gains tax.
- Local governments should live within their means.
- Explore property tax reform with an eye toward new construction and annexation.

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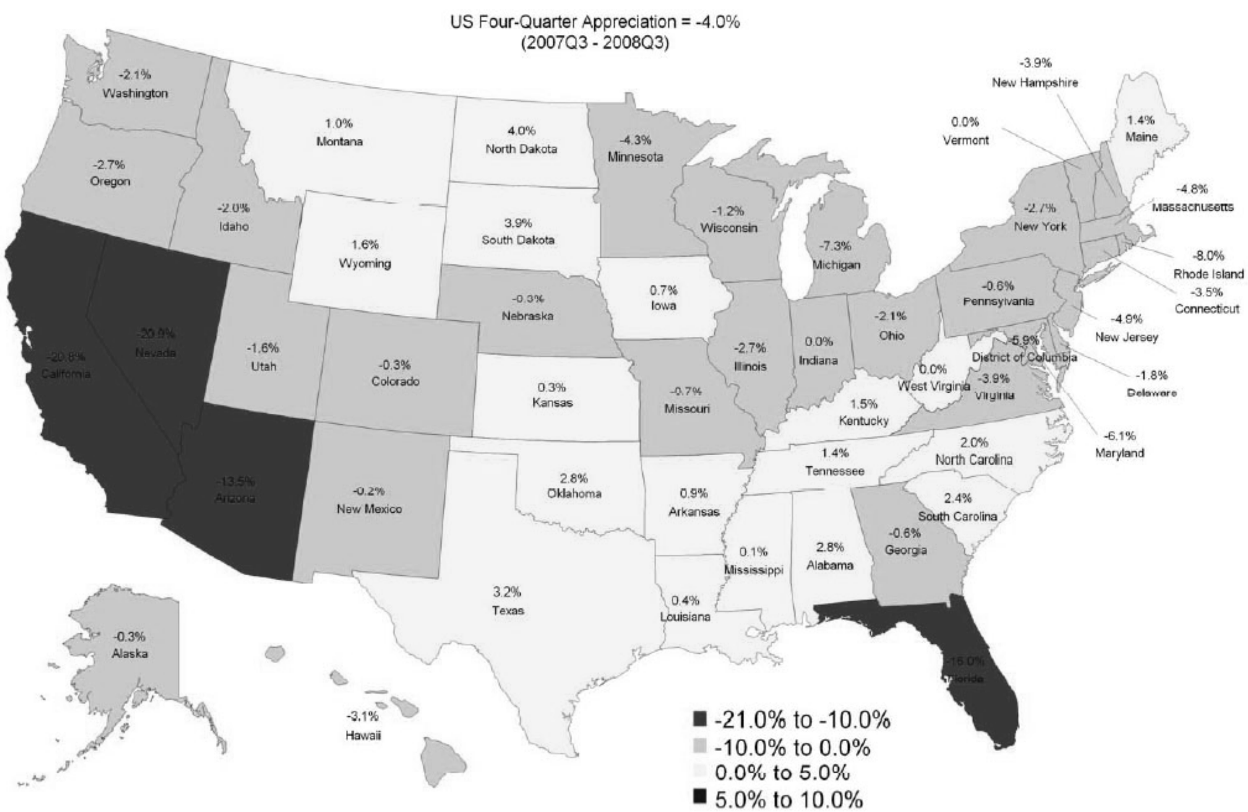
HOUSING PRICE INDEX

Four-Quarter Price Change by State: FHFA HPI
(Uses Purchase Prices and Appraisal Valuations)



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THE ROLE OF THE LEGISLATURE

- Cap the Homeowner’s Exemption
- Increased activity in our markets by government could have significant negative impacts.
- Keep an eye on other states with regard to economic development and tax policy.
- Consider the elimination of the corporate income tax.
- Change law with regard to when you get the exemption.

63-602G (2) The exemption allowed by this section may be granted only if:

(a) The homestead is owner-occupied and used as the primary dwelling place of the owner as of January 1, provided that in the event the homestead is owner-occupied after January 1 but before April 15, the owner of the property is entitled to the exemption.

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The Idaho Association of REALTORS® will continue to work to craft policies that enhance and protect the real estate industry and the free transaction of real property.

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END